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Central Intelligence Agency



Washington, D.C. 20505

## DIRECTORATE OF INTELLIGENCE

25 NOV 1985

MEMORANDUM FOR: See Distribution List

FROM :   
Acting Chief, Economics Division, OGI

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SUBJECT : GATT Special Session

Attached is a typescript recently produced by the Economics Division. It evaluates the tactics and methods of major players at the 30 September-2 October Special GATT Contracting Parties Session. If you have any questions or comments, please contact the International Trade Branch

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## Attachment:

Post-mortem on Special GATT Session: Slow

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Momentum Sustained GI M 85-10303C, November 1985 

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**SUBJECT: Post-mortem on Special GATT Session: Slow Momentum Sustained**

**OGI/ECD/T** [redacted] (22Nov1985)

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DIRECTORATE OF INTELLIGENCE

18 November 1985

Post-mortem on Special GATT Session: Slow Momentum Sustained

This typescript [ ] describe and assess the actions of major players at the 30 September-2 October special GATT Contracting Parties session. [ ]

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This memorandum was prepared by [ ] International Trade Branch, Office of Global Issues. [ ]

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OVERVIEW

As a result of last month's special GATT Contracting Parties session, a new GATT trade round now has the backing of all industrial and many developing countries. However, the new round continues to encounter rough going due to an obstructionist minority of developing countries -- particularly Argentina, Brazil, Egypt, India, and Yugoslavia, the so-called "Group of Five." They have tried to delay planning and limit the agenda of a new round; they appear to be uninterested in a new round unless it follows a restricted format of their own choosing. Consequently, the special session's achievements, although significant, were exclusively procedural. Substantive disagreements were put off until the annual Contracting Parties meeting in November 1985. We believe the Group of Five fears that in a new round, to improve access to industrial country markets, advanced developing countries would have to at least partially open their markets to industrial country goods and services. Brazilian and Indian intransigence may also be tactical, with Brasilia hoping through dogged procedural obstruction to force the United States into granting concessions before a new round can begin.

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The issue the Group of Five has most often used to delay the new round is whether to consider GATT regulation of international services trade. The United States has indicated that a new round would be of little value

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[redacted]

to it without services. In contrast, India wants to exclude all subjects new to GATT -- services, intellectual property, and investment. Brazil has attempted to craft a "compromise" in which there would be two completely separate sets of negotiations -- on goods and on services. This formula has been rejected by the industrial countries because it fails to recognize the political reality of the need to balance concessions between goods and services. [redacted]

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This dispute over services is still unresolved. It was nearly responsible for failure of the special Contracting Parties meeting, and will certainly surface at the GATT annual Contracting Parties meeting this month. However, crucial decisions on services could again be deferred to the new round Preparatory Committee (Prepcom) next year, assuming the November meeting approves a Prepcom. [redacted]

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LEADUP TO THE SEPTEMBER MEETING

At the end of August it was clear that the United States had obtained the consent of a majority of Contracting Parties for a special Contracting Parties session -- unless the Group of Five could sidetrack it. [redacted]

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[redacted] The Group of Five adopted a two-part strategy on the agenda: (1) amend the proposed agenda supported by the United States to exclude consideration of services and focus discussions on whether a round was needed, and (2) as a fallback, adopt an agenda that omitted reference to a new round. [redacted]

By 2 September the Group of Five had also produced a "nonpaper." The paper was drafted as the chairman's hypothetical conclusions for a resumed GATT council meeting that the Group of Five had wanted to substitute for the special Contracting Parties meeting proposed by the United States. The nonpaper was to be used in trying to influence delegations such as the EC that, in the opinion of the Group of Five, were open to efforts to reach consensus on substantive issues rather than go into the special Contracting Parties meeting without agreement on anything. The nonpaper deviated little from past Group of Five positions, particularly on excluding services from a new round. It also continued the Brazilian retreat from Brazilian Foreign Minister Setubal's proposal to handle services in GATT, although separately from goods, that he made at an informal meeting in Stockholm in June. Key points included:

\* GATT had no jurisdiction over services, and GATT rules and principles should not apply to any multilateral work on services.

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[REDACTED]

\* Negotiations on trade and services should not be cross-linked, be subject to trading concessions between the two areas, or proceed at a similar pace.

\* Two separate meetings of senior officials -- on trade and on services -- should be convened. Both would present progress reports to the annual Contracting Parties meeting in November.

[REDACTED]

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Calling a special council meeting was viewed by most GATT delegations as a diversionary tactic and it received little support.

[REDACTED]

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[REDACTED] the substantive positions contained in the draft continue to be supported by the Group of Five.

[REDACTED]

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By mid-September the Group of Five had accepted that the special Contracting Parties meeting would occur -- although Brazil continued to oppose it [REDACTED] At that time the Group of Five had apparently abandoned its agenda strategy as too ambitious, and was trying to formulate a workable strategy for altering the tentative agenda [REDACTED]

[REDACTED]

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7 Plus 7 Meetings

At GATT 7 Plus 7 meetings -- originally seven LDCs and seven industrial countries, but actually attended by about 20 industrial and developing countries -- leading up to the special session, the Group of Five was noncommittal in reaction to industrial country efforts to enlist developing country support for the agenda

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According to diplomatic reports, most delegates feared the Group of Five would try to derail the special Contracting Parties session with a vote on the agenda at the beginning of the session. [REDACTED]

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Argentine Agenda Proposal

According to diplomatic reports, at the 25 September developing-country caucus, Argentina asked the developing countries to sponsor its amended agenda for the special Contracting Parties session. The Argentine agenda would have limited consideration of services to the parameters of the 1982 GATT work program (restrictive language is underlined):

Examination of the subject matter and modalities of a proposed new round of multilateral trade negotiations within the framework of the GATT work program and priorities for the 1980's as set forth in the ministerial declaration of 1982.

[REDACTED] Brazil, Cuba, Egypt, Nicaragua,

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Pakistan, Peru, Yugoslavia, and Zaire supported the Argentine agenda.

India reacted positively, but asked for time for study because it was more moderate than the Indian instructions. It was not supported by South Korea and Singapore (for ASEAN). Colombia, Jamaica, and Uruguay did not object to the Argentine proposal, but stated that the agenda should be as broad as possible to allow any country to discuss any topic. Consequently, Argentina decided to present the agenda to the 7 Plus 7 as its own proposal and not as a joint LDC proposal. [REDACTED]

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US diplomatic sources report that Argentine officials indicated at the 7 Plus 7 meeting that their agenda was presented on instructions from Buenos Aires. However, this may simply mean that Noguerol's, and Batista's, plan was submitted to the Foreign Ministry for approval.

[Redacted]

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Argentine Agenda Blocked

The 27 September 7 Plus 7 meeting discussed the Argentine agenda proposal.

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[Redacted]

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The

meeting ended without chairman Jaramillo indicating whether he would adopt the EC suggestion. [REDACTED]

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[REDACTED]

Jaramillo Acts on Agenda

During the weekend of 28-29 September, informal consultations failed to resolve the impasse over the agenda, according to diplomatic sources. The United States did not want the agenda to impose any restrictions on a new

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round's ability to deal with services issues, whereas the Group of 5 threatened to object to an agenda that placed services in a new round. US officials publicly remarked that they might be forced to break with traditional GATT decision-making by consensus and push through an agenda on a rollcall vote. At the beginning of the special session in the afternoon on 30 September -- in the absence of a consensus and in order to avoid the disarray that a vote might have created -- Jaramillo read out an agenda he believed met the concerns of both industrial countries and the Group of Five and gavelled it down:

Examination of the subject matter and modalities of a proposed new round of multilateral trade negotiations in light of the GATT work program and priorities for the 1980's as contained in the ministerial declaration of 1982 and the continuing consideration to changes in the trading environment so as to ensure that the GATT is responsive to such changes. [REDACTED]

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Jaramillo's text retained the reference desired by developing countries to the work program and the reference to a "proposed" new round, but removed the Argentine language "within the framework" that restricted the Argentine agenda to the 1982 work program. It also added a final clause containing a clear reference to services. Brazil and India announced they could not accept the agenda, but also announced they would not block a consensus. Argentina said it would express no objections, while Egypt and Yugoslavia did not speak. [REDACTED]

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NEGOTIATIONS ON THE FINAL CONCLUSIONS

After adoption of the agenda, the special session was devoted to two activities: the presentation of prepared country statements at the formal plenary sessions, which was of little consequence, and backroom jockeying over the content of the meeting's concluding statement. The latter took

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place in formal, but private, heads of delegation meetings that included about 24 industrial and developing countries, and in smaller informal meetings. Only last minute compromise avoided an almost unprecedented vote. [REDACTED]

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### Second Day

On 1 October, the second day of the three-day Contracting Parties session, disarray among the industrial countries encouraged Group of Five blocking tactics. Obstruction was particularly effective in small groups and informal meetings because a high proportion of the developing countries represented were Group of Five members, even though they comprise less than 8 percent of the developing countries in GATT. The day began well for proponents of swift progress toward a new round. A morning industrial-country caucus had apparently united behind its version of draft final conclusions:

1. The preparatory process leading to a new round of negotiations has been initiated.
2. This process will be pursued continuously by a high-level group of officials open to all Contracting Parties.
3. This group will report to a resumed special session of the Contracting Parties on November 29, 1985.
4. The resumed special session on November 29, 1985 will establish a preparatory committee to prepare the basis for launching a new round not later than April 1986. [REDACTED]

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The industrial country strategy at the heads of delegation meeting later in the day was to have a succession of delegations, including some

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[REDACTED]

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[redacted]

developing country delegations, speak in favor of this formulation in order to demonstrate broad support for it and to show that the Group of Five was greatly outnumbered. The meeting began with a strong statement by Jaramillo setting out the four points in the draft and mentioning the need to consider services. The strategy, however, was soon undercut by unanticipated remarks made by an official from Bern sitting with the Swiss contingent. This official gave up ground to the Group of Five by suggesting that the term "preparatory" in paragraph 1 be replaced with "exploratory." An official from Ottawa then picked up on this idea, endorsed it, and directed attention away from the industrial country draft with analytic comments on collateral issues. According to US officials, a number of developing countries that had been expected to support the draft, such as Malaysia, subsequently presented ambivalent statements, having sensed indecision in industrial country ranks. [redacted]

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[redacted]

[redacted] According to US officials, at the heads of delegation meeting Brazil objected to everything; however, just as in 7 Plus 7 meetings, Batista never took the next step to say Brazil would formally oppose anything on the floor. Also, according to US officials, at a dinner that evening, Batista again publicly attacked Jaramillo. [redacted]

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Third Day

Heads of delegation sessions through the afternoon of 2 October were inconclusive in consideration of new draft conclusions submitted by the Secretariat. The new draft was developed principally by David Hartridge, Dunkel's chief aide, and was written to take into account industrial country objectives as well as Group of Five concerns that they not be locked into a new round or into negotiations on services. Throughout the deliberations, Brazil tried to exclude services from the mandate of the Senior Officials Group (SOG). It argued, for example, that the SOG cannot report to the Contracting Parties in November on discussions on an issue (services) that is not now within the jurisdiction of the GATT. According to US officials, backers of a new round presented the Group of Five with a better show of solidarity than on the previous day, and as a result the Group of Five was isolated, with backing from only Cuba, Kuwait, and Nicaragua. [redacted] the developing countries most active in support of the draft text were the ASEAN countries, South Korea, Colombia, Israel, Jamaica, and Turkey. US officials report that there were strong interventions by the EC, and Australia and Canada contributed by challenging statements by Batista. [redacted]

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[REDACTED]

In evening meetings restricted to Brazil, India, and the United States, Brazil and India acquiesced in the adoption of a text very close to the Hartridge draft. There were no interpretive statements by any GATT members. The final agreed conclusions were:

The Contracting Parties meeting in Special Session agree that:

- a preparatory process on the proposed new round of multilateral trade negotiations has now been initiated;
- in order to further this process, a group of senior officials, open to all Contracting Parties, is established; it will meet for the first time on 14 October;
- this group will report to the Contracting Parties at the November session;
- at that session of the Contracting Parties, a decision will be taken on the establishment of a preparatory committee to prepare the basis for the launching of a new round.

It is understood that:

- the senior officials group will examine the subject matter and modalities of the proposed negotiations in the light of the GATT Work Program and Priorities for the 1980's as contained in the Ministerial Declaration of 1982 and the continuing consideration of changes in the trading environment so as to ensure that the GATT is responsive to these changes;
- the work of the Senior Officials Group will not prejudice the ongoing work of the GATT in terms of the 1982 Work Program, and will not prejudice the work on services in terms of the 1982 and 1984 decisions and agreed conclusions of the Contracting Parties; the November session will also receive reports on this ongoing work. [REDACTED]

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The final two paragraphs of the conclusions seek to preserve industrial country and Group of Five substantive positions on services: the reference

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[redacted]

to "changes in the trading environment" is to services, and the language on not prejudging work on services under the 1982 GATT Work Program implies that the SOG will not make procedural or substantive recommendations on GATT handling of services. Instead, it will leave such decisions to the November Contracting Parties session or to the Preparatory Committee. [redacted]

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[redacted]

We believe Brazil and India accepted this final agreed conclusion for several reasons:

- \* Pressure to conclude the meeting.

- \* Isolation of the Group of Five.

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[redacted]

- \* The fact that [redacted] there was no remaining language in the text that the Group of Five could use as a pretext to continue obstruction.

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- \* The text did not prejudice any of the Group of 5's substantive positions. [redacted]

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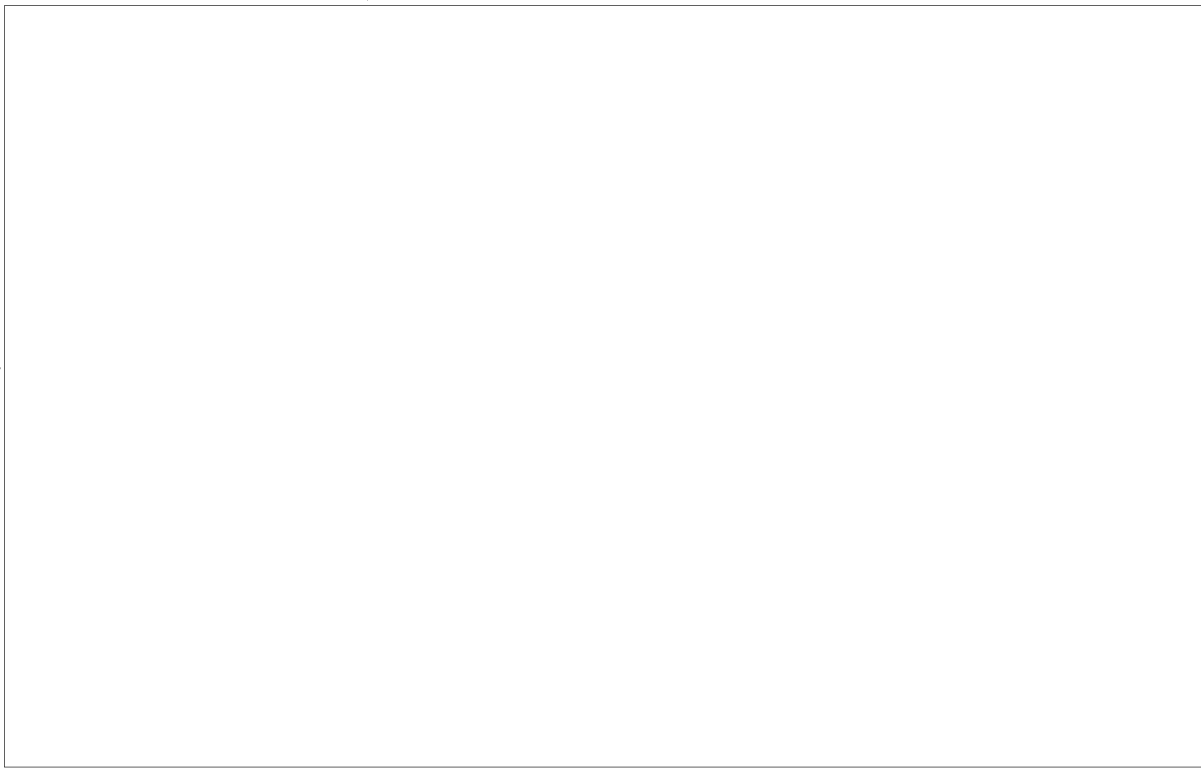
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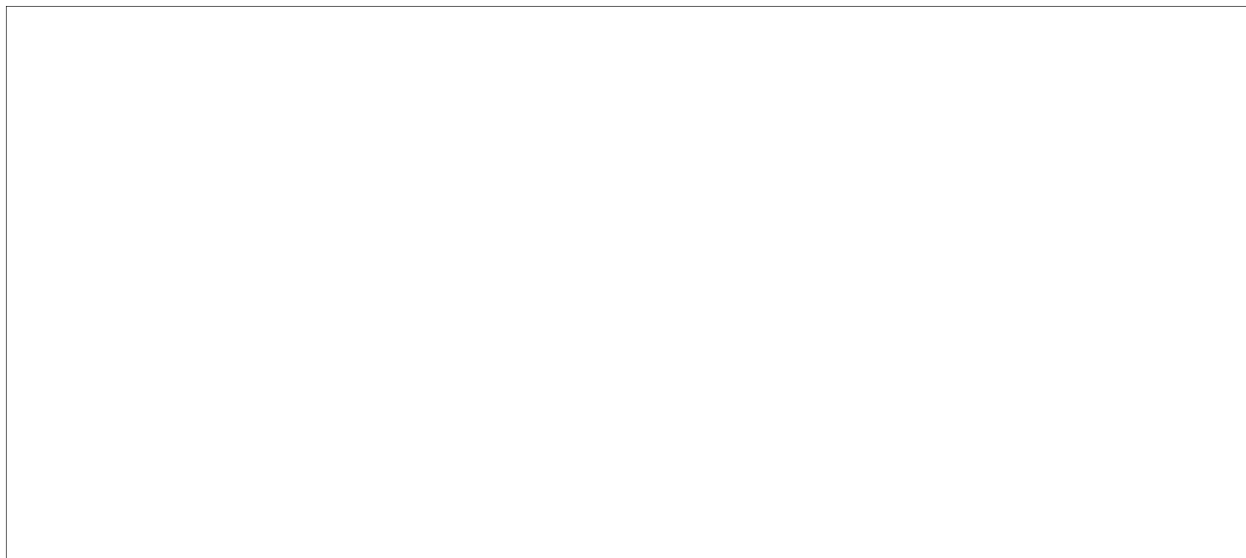
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REACTIONS



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India

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[redacted] commentary in the India media is, if anything, even less conciliatory than before the special session. For example, commentary in the Indian overseas radio service on 8 October judged that there had been "little advance to a positive approach" by the industrial countries, and asserted that developing countries see in industrial country efforts to introduce services into GATT "the West's keenness to seek control of the services markets including banking and insurance and so forth in the developing countries." [redacted]

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France

According to diplomatic sources, Jean-Pierre Landau, the primary French working-level official responsible for the new round, told US officials on 3 October that he was "very happy" and "relieved" by the outcome of the special session. He said he was satisfied with the consensus at Geneva,

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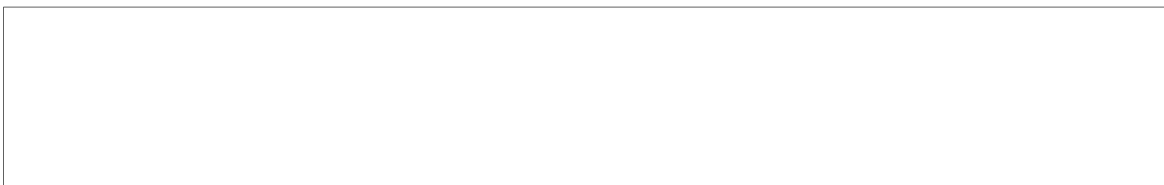


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but expressed some doubt about being able to set up a Prepcom in November because, he noted, work was not sufficiently advanced and political problems (probably meaning the treatment of services) had not been solved.



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